

No. 20-915

IN THE
Supreme Court of the United States

UNICOLORS, INC.,
Petitioner,

v.

H&M HENNES & MAURITZ, L.P.,
Respondent.

*On Writ of Certiorari to
the United States Court of Appeals
for the Ninth Circuit*

**Brief of National Retail Federation as *Amicus
Curiae* in Support of Respondent**

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INTEREST OF AMICUS CURIAE¹

Established in 1911, the National Retail Federation (“NRF”) is the world’s largest retail trade association. Retail is by far the largest private-sector employer in the United States. It supports one in four U.S. jobs—approximately 52 million American workers—and contributes \$3.9 trillion to annual GDP. Many of NRF’s members participate in the retail apparel market. In the past two decades, this market has seen a deluge of copyright litigation, driven almost entirely by a small handful of U.S. fabric converters.

NRF fully supports the right of copyright owners to enforce their legitimate rights in court. But over the years it has become apparent that claims brought by the most prolific fabric design litigants—and Unicolors in particular—for the most part do not involve any wrongdoing by retailers or their vendors. Nor do these claims merely seek to remedy alleged harms suffered by these plaintiffs. Rather, a huge percentage of cases are brought as part of a cottage industry of litigation-for-profit.

Copyrights for basic fabric designs are worth very little—they ordinarily sell for only a few hundred dollars in the open market—but a handful of companies, including Unicolors, have discovered that by suing retailers, they can transform a copyright worth almost nothing into a settlement worth tens, if not hundreds,

¹ Counsel for all parties have filed blanket consents to the filing of *amicus* briefs. In accordance with Rule 37.6, *amicus* confirms that no party or counsel for any party authored this brief in whole or in part, and that no person other than *amicus* or its counsel made any monetary contribution intended to fund the preparation or submission of this brief.

of thousands of dollars. This handful of companies utilizes copyright law not to encourage creativity, but rather, like vampires, to suck the lifeblood of the retail apparel industry. NRF and its members have an interest in this case because interpreting the Copyright Act as it is written will promote an accurate Register, and will help to stem the ability of copyright owners like Unicolors to abuse the copyright law for their own enrichment at the expense of retailers.

SUMMARY OF ARGUMENT

By making registration a prerequisite to enforcing a copyright in Court, the Copyright Act places a minimal burden on creators to secure all the benefits of copyright ownership. While the registration requirements are not difficult to satisfy, copyright owners are expected to be careful, and provide only accurate information when applying for registration. Section 411(b) of the Copyright Act gives teeth to this expectation. Regardless of intent, the statute provides a consequence for providing materially inaccurate information with knowledge of the inaccuracy. As such, copyright owners have an incentive to exercise proper care in the application process.

Here, whether intentionally or carelessly, Unicolors knowingly included inaccurate information in its application regarding the publication of the works to be registered. In an effort to save money on registration fees, Unicolors included multiple designs in a single application for registration. By applying for registration of multiple designs as a single work, Unicolors represented to the Copyright Office that all the de-

signs were published together in a “single unit of publication” on a particular date. *See* 37 C.F.R. § 202.3(b)(4) (2011). That representation was not accurate.

As established by the evidence at trial, several of the designs were *not* published on the date stated in the registration, and they were certainly not included with the other designs in any single unit of publication. Had the Copyright Office known the application included designs that were not included in a single unit of publication, 37 C.F.R. § 202.3(b)(4) would have prohibited registration of the claim as a single work. It is anticipated that, after referral, the Register of Copyrights will confirm this inaccuracy, if known, would have resulted in refusal of registration.

The evidence established that the individual who certified Unicolors’ application—Nader Pazirandeh—knew the designs included in the application were not published together as a single unit on the date stated in the application. However, Unicolors argued it should not suffer the consequence of Section 411(b) because Respondent had not proved he intended to deceive the Copyright Office. Unicolors petitioned for certiorari based on that same contention, but has since abandoned the argument in its merits brief. Unicolors now argues Section 411(b) cannot apply because Mr. Pazirandeh somehow *believed* the information was accurate—even though he cannot point to any interpretation of “single unit of publication” that would reasonably apply to the facts available to him.

As noted by Respondent, the question Unicolors presented in its merits brief does not match the question for which this Court granted certiorari. But to the

extent the Court is inclined to entertain the novel question presented—i.e., whether the Copyright Act requires copyright owners to actually confirm the information in the application is accurate—it must reject Unicolors’ interpretation of Section 411(b).

Adopting Unicolors’ interpretation would create serious mischief, and would open the door for even more “copyright trolls” to embark on campaigns of litigation for profit. No reasonable person could conclude that Unicolors’ actions with respect to the fabric designs at issue—*i.e.*, placing some of them in a showroom on a particular date, while holding others back to be distributed privately—constituted publication in a “single unit of publication.” Regardless of whether distribution to private clients could be considered publication of the “confined” designs, there is no reasonable interpretation of “single unit” that could make the designs included in Unicolors’ application eligible for registration as a single work. The only way Mr. Pazirandeh could have not known the publication information in the application was inaccurate is if he completely failed to acquaint himself with the facts he certified, or if he wholly disregarded the meaning of the terms “publication” and “single unit.”

With respect to the portion of the question presented that asks whether Section 411(b) requires referral to the Copyright Office “where there is no . . . material error” in the registration, Petitioner and several of its *amici* agitate for a rule that ignores the statutory language. Citing a decision from the Seventh Circuit, they argue that district courts may refuse to refer a case to the Register of Copyrights unless the

defendant first “establish[es] that the other preconditions to invalidity are satisfied,” or, in other words, “demonstrate[s] that (1) the registration application included inaccurate information; and (2) the registrant knowingly included the inaccuracy in his submission to the Copyright Office.” *DeliverMed Holdings, LLC v. Schaltenbrand*, 734 F.3d 616, 625 (7th Cir. 2013). This rule flies in the face of the statute’s plain language. According to the statute referral is mandatory “[i]n any case in which inaccurate information . . . is *alleged*.” 17 U.S.C. § 411(b)(2) (emphasis added). To the extent the rule described in *DeliverMed Holdings* permits a district court to refuse referral unless a defendant first proves the elements of Section 411(b)(1), it must be disapproved.

Finally, interpreting Section 411(b) as it is written is necessary—though by no means sufficient—to stem the flood of litigation-for-profit that has plagued the retail industry in recent years. Conversely, adopting Unicolors’ proposed interpretation will spur even more troll-like behavior. To the extent Unicolors predicts injustice to copyright owners if the Ninth Circuit’s opinion stands, those concerns are unfounded. Requiring copyright owners to exercise at least some care in following the rules for registration will not give infringers a “get out of jail free” card. Nor will it penalize copyright owners who make inadvertent mistakes. At worst, it will encourage copyright owners who wish to pursue court cases to check their registrations for material inaccuracies, and cure errors prior to bringing suit.

ARGUMENT

I. Section 411(b)(1)(A)’s “knowledge” prong strikes the proper balance between the interests of copyright owners and the public.

Under the Copyright Act, registration is not required to secure a copyright—the copyright subsists from creation—but it is a mandatory prerequisite for filing a civil action for infringement of United States works. *See* 17 U.S.C. §§ 302(a), 408(a), 411(a). Moreover, a certificate of registration that contains inaccurate information still satisfies the registration requirement unless “(A) the inaccurate information was included on the application for copyright registration with knowledge that it was inaccurate; and (B) the inaccuracy of the information, if known, would have caused the Register of Copyrights to refuse registration.” *Id.* § 411(b)(1). In any case where a defendant alleges inaccuracy in a registration certificate, the district court “shall request the Register of Copyrights to advise the court whether the inaccurate information, if known, would have caused the Register of Copyrights to refuse registration.” *Id.* § 411(b)(2). The issue whether the plaintiff included the inaccurate information in his or her application “with knowledge that it was inaccurate,” *id.* § 411(b)(1)(A), is a question of fact to be determined by the district court.

This registration regime strikes a balance between the interests of copyright owners and the public. On the one hand, owners need not fear the loss of their rights if they fail to register, and they suffer no consequences for errors that are inadvertent or immaterial.

On the other hand, the public benefits from an accurate Copyright Register populated only by works that are actually entitled to registration. Both the public and the Register benefit from a system that encourages applicants to provide only accurate information, and to carefully comply with the regulations.

Indeed, the Copyright Office has put significant effort into developing regulations for registration, and it provides resources to the public to educate copyright owners, and guide them through the registration process. For example, as relevant here, the current regulations permit a copyright owner to register as one work “all copyrightable elements that are otherwise recognizable as self-contained works, that are included in the same unit of publication, and in which the copyright claimant is the same.” 37 C.F.R. § 202.3(b)(4).² This regulation provides a copyright owner with an advantage: by publishing multiple individually copyrightable works together in a “unit of publication,” the copyright owner can obtain registration of all such works upon payment of a single registration fee. In addition, so long as the content includes at least some copyrightable material, registration may be granted even if the application includes material that could not be registered on its own. If the “self-contained works” were not first published in a single unit of publication, the owner must either register each work separately, or satisfy special requirements for group registration. *See* 37 C.F.R. § 202.4.

² The version of this regulation in force at the time Unicolors applied for registration used the term “single unit of publication,” instead of “same unit of publication.”

The Copyright Office publishes its *Compendium of U.S. Copyright Office Practices* as a guide for both copyright owners and Copyright Office staff. However, knowing that many copyright owners handle the registration process without professional assistance, the Copyright Office also publishes “circulars,” which provide information and instruction for the lay-public. For example, Copyright Circular 1, “Copyright Basics,” includes a section entitled “What is Publication and Why Is It Important?” U.S. Copyright Office, Circular 1: Copyright Basics, at 7, *available at* <https://www.copyright.gov/circs/circ01.pdf> (hereafter, “Circular 1”). The Circular explains that “publication is the distribution of copies or phonorecords of a work to the public by sale or other transfer of ownership or by rental, lease, or lending.” *Id.* It identifies several important implications stemming from publication, and refers potential applicants to Chapter 1900 of the *Compendium* for more information. *Id.* Circular 34, “Multiple Works,” explains in easy-to-understand terms the situations where individual works can be registered together, and what it means for works to be published together in a “unit of publication.” U.S. Copyright Office, Circular 34: Multiple Works, at 6-7, *available at* <https://www.copyright.gov/circs/circ34.pdf>. It warns that “the requirements for registering a number of works as a unit of publication are very specific, and most works do not qualify for this option.” *Id.* at 6. The Copyright Office also provides tutorials to guide laypersons through the registration process. *See* <https://www.copyright.gov/eco/tutorials.html>.

While copyright owners cannot lose their copyrights due to even blatant or intentional inaccuracies in the registration, every applicant for registration

must provide all the information required by the particular form, and must certify the truthfulness of the information provided. 37 C.F.R. § 202.3(c)(2), (3). Section 411(b) gives teeth to these requirements by imposing a consequence for providing inaccurate information with knowledge that it is inaccurate—at least when the inaccuracy is material to the registration.

Section 411(b) does more than simply deter fraud in the application process. Respondent’s merits brief cogently explains the wide gap between the statute’s language—which uses the phrase “with knowledge”—and the “intent to defraud” standard proposed by Unicolors in its petition for certiorari. Whereas “fraud” includes an element of intent to deceive, “knowledge” encompasses a broader state of mind. In addition, as explained by Respondent, statutes that adopt a “knowledge” standard ordinarily use that word to refer to both actual and constructive knowledge. The consequence imposed by Section 411(b) provides an incentive to copyright owners to take care in the registration process, and to make sure the information they provide is accurate.

Notably, Petitioner’s brief studiously avoids stating plainly what exactly Unicolors represented to the Copyright Office in its application for registration, or why that information was inaccurate. By signing the application, Nader Pazirandeh certified that the designs included in the application were all published as a single unit on January 15, 2011. (JA-228.) Putting it in terms of the statutory definition, he certified that on January 15, 2011 copies of all those works were distributed “to the public by sale or other transfer of ownership or by rental, lease, or lending,” and that “all copyrightable

elements that are otherwise recognizable as self-contained works” were “included in a single unit of publication.” 17 U.S.C. § 101, 37 C.F.R. § 202.3(b)(4)(i)(A) (2011); *see also* Circular 1, at 6-7.

The evidence at trial established that some of the designs (*i.e.*, self-contained works) included in the registration were *not* distributed to the public on January 15, 2011, or included in a single unit of publication, but were instead only distributed internally to Unicolors’ salespeople. (Cert. Pet. App. 5a-6a.) To the extent those salespeople later sent the “confined” designs to private clients, such private distribution would not appear to satisfy the statutory definition of publication, which refers to “distribution of copies . . . *to the public* by sale or other transfer of ownership, or by rental, lease, or lending.” 17 U.S.C. § 101 (emphasis added).

Nevertheless, the question whether private distribution to exclusive customers might have satisfied the publication requirement is of little moment in this case because Mr. Pazirandeh could not have reasonably certified that all the designs included in the application were included in a “single unit of publication” in any event. The term “single unit” is not susceptible to any reasonable interpretation that would encompass what Unicolors did. Thus, regardless of whether Mr. Pazirandeh had the specific intent to deceive the Copyright Office, he could not have truthfully certified the application. He would have had to ignore either the facts or the meaning of the words “publication” and “single unit.”

To hold that a copyright owner may, without consequence, certify an application for registration while ignoring either the facts or the meaning of terms that

are fundamental to the registration would be to strip the certification requirement of all force. The regulations governing registration require a declaration stating “that the information provided within the application is correct to the best of the certifying party’s knowledge.” 37 C.F.R. § 202.3(c)(3)(iii). This requirement necessarily assumes the certifying party has a reasonable understanding of fundamental terms such as “publication” and “single unit,” and that he or she has actually confirmed the facts are as stated. Without such knowledge, certification is meaningless.

II. The predictions of dire consequences resulting from the Ninth Circuit’s straightforward interpretation of Section 411(b) are unfounded.

Contrary to Unicolors’ purported fears, holding copyright owners to the certifications in their applications—regardless of intent—does not mean copyright owners will suffer widespread loss of the benefits of their registrations due to good faith mistakes involving reasonable misunderstandings of the law. Citing precedent involving an entirely different statute, Unicolors argues that a person cannot knowingly violate the law if he or she acts pursuant to an erroneous, but “not objectively unreasonable” statutory interpretation. (Pet. Br. At 40 (citing *Safeco Ins. Co. of Am. v. Burr*, 551 U.S. 47, 69-70 (2007)).) Whether this principle should apply to Section 411(b)(1)(A) may be decided on another occasion.³ It is clear in this case that

³ Indeed, the Ninth Circuit has expressly left open the possibility that inaccuracy resulting from a reasonable misunderstanding of the law might defeat a claim that the inaccuracy was included

Nader Pazirandeh’s inaccurate certification was *not* based on any objectively reasonable statutory interpretation.

Here, Mr. Pazirandeh testified unequivocally that the “confined” designs listed in the registration would not have been distributed to the public for sale with the other designs on January 15, 2011. (Cert. Pet. App. 4a-5a.) Rather, the only instance in which the designs were distributed together was at an internal meeting. (Cert. Pet. App. 5a-6a.) According to Mr. Pazirandeh, “confined” designs were distributed to internal salespersons on January 15, 2011, but were withheld from public distribution.

The term “publication,” as defined in the statute, is not susceptible to an interpretation that distribution to internal salespersons constitutes publication. *See* 17 U.S.C. § 101. Likewise, even assuming that a salesperson sending a single design to a private client could constitute “publication,” the term “single unit of publication” as used in 37 C.F.R. § 202.3(b)(4) is not susceptible to an interpretation that would permit such a design to be registered as part of a single work with other designs that were first published separately. The record contains no evidence suggesting Mr. Pazirandeh

with knowledge. *See Gold Value Int’l Textile, Inc. v. Sanctuary Clothing, LLC*, 925 F.3d 1140, 1147 (9th Cir. 2019) (“Although Fiesta asserts that it did not believe that such sales constituted publication as a matter of law, Fiesta provides no reasonable basis for this belief. Fiesta’s lack of authority or plausible explanation for its position distinguishes this case from others in which a claimant’s good faith or inadvertent mistake did not constitute a knowing inaccuracy.”).

even considered the meaning of the terms “publication” or “single unit,” or if he did that his interpretation could be considered reasonable.

Unicolors also cites a case from the Sixth Circuit, which, for purposes of establishing “fraud on the Copyright Office,” required proof that the applicant acted with either “an intention to secure an advantage in violation of the statute, or with a fraudulent purpose.” (Pet. Br. 34 (citing *Advisers, Inc. v. Wiesen-Hart, Inc.*, 238 F.2d 706, 707 (6th Cir. 1956)).) Here, however, it is undisputed that Unicolors represented to the Copyright Office that all the designs were published together on a particular date, and by doing so secured an important advantage—namely, registration of multiple designs as a single work. Unicolors does not contend that it was entitled to this advantage. On the contrary, it is anticipated the Register of Copyrights will confirm that if the application had disclosed the fact that the designs were not actually published in a single unit, registration would have been refused.

III. District courts must request the Register of Copyrights’ advice regarding inaccurate information in any case where inaccuracy is properly alleged.

This case is primarily concerned with the issue whether the district court must find fraudulent intent in order to invalidate a registration under Section 411(b). However, the question presented also asks whether Section 411 requires referral to the Copyright Office “where there is no . . . material error” in the registration. On that issue, Petitioner and its *amici* agitate for a rule first stated by the Seventh Circuit,

which held that district courts may refuse to seek the Register of Copyrights' advice on whether inaccurate information in an application would have resulted in refusal of registration unless the defendant first "establish[es] that the other preconditions to invalidity are satisfied." *DeliverMed Holdings, LLC v. Schaltenbrand*, 734 F.3d 616, 625 (7th Cir. 2013); *see also id.* ("In other words, a litigant should demonstrate that (1) the registration application included inaccurate information; and (2) the registrant knowingly included the inaccuracy in his submission to the Copyright Office.").

This rule flies in the face of the statute's plain language. The Seventh Circuit acknowledged that "the statute appears to mandate that the Register get involved '[i]n any case in which inaccurate information [in an application for copyright registration] is *alleged*,'" *Id.* (quoting 17 U.S.C. § 411(b)(2)) (emphasis added). But based on a fear of potential abuse, *DeliverMed Holdings* purportedly authorizes district courts to ignore the word "alleged," and instead require a defendant to *prove* both inaccuracy and knowledge before "question[ing] the Register as to whether the inaccuracy would have resulted in the application's refusal." *Id.*

The rule stated in *DeliverMed Holdings* cannot be squared with the language of the statute. Obviously, a district court cannot seek the Register's advice unless and until the defendant alleges with some particularity *how* the information in the registration is inaccurate. But so long as the facts are adequately alleged, the district court has no discretion to refuse to request

the Register's advice as to whether the allegedly inaccurate information, if known, would have resulted in a refusal. If Congress had intended to require defendants to prove their allegations prior to referral, it would not have used the word "alleged" in the statute.

Petitioner and *amicis*' warning that following the statutory language will permit defendants to abuse Section 411(b)(2) by needlessly increasing the plaintiff's costs is unfounded. The Copyright Act permits eligible prevailing plaintiffs to recover attorney's fees, and Rule 11 of the Federal Rules of Civil Procedure provides sanctions for making frivolous allegations. *See* 17 U.S.C. § 505; Fed.R.Civ.P. 11(b)(3). As such, defendants have a vested interest in refraining from litigation conduct that unnecessarily increases the plaintiff's costs. Courts cannot expect defendants will act against their own interests by alleging inaccuracies in a registration when their factual contentions lack evidentiary support.

Petitioner and *amicis*' fear that defendants may use referral to the Copyright Office as a delay tactic is likewise unfounded. The statute requires referral in any case where inaccuracy is alleged, but that does not necessarily mean district courts must stay proceedings while they await the Register's advice. Where, as here, evidence in the record supports an allegation that (1) inaccurate information was included in an application with knowledge that it was inaccurate, and (2) the Register will likely confirm the inaccuracy, if known, would have resulted in refusal of registration, a stay of proceedings while awaiting the Register's advice would likely avoid unnecessary costs for both parties.

On the other hand, if a district court determines an allegation of inaccuracy has been made for an improper purpose—such as to delay or needlessly increase costs—the statutory language does not indicate a stay of proceedings would be required. Whether a stay of proceedings is either required or appropriate in any given case can be determined on a case-by-case basis. But ultimately the decision whether to delay a trial because of a Section 411(b)(2) referral lies with the district court—not the defendant.

IV. Interpreting Section 411(b)(1)(A) as it is written is necessary to stem the flood of litigation by copyright trolls.

Affirmance of the Ninth Circuit’s opinion is necessary—though almost certainly not sufficient—to stem the flood of litigation brought by copyright trolls in the district courts. Over the last two decades, a handful of fabric companies—with Unicolors at the forefront—have created a lucrative cottage industry of copyright-litigation-for-profit. This glut of litigation is not due to any widespread disrespect for copyright law among retailers. Rather, these cases are driven by the fact that copyright litigation is extremely lucrative. Indeed, for companies like Unicolors—who seem to have an unending pipeline of copyright claims—suing for copyright infringement is likely far more profitable than selling print fabrics.

A search of “All Federal Dockets” in Westlaw for Intellectual Property/Copyright suits involving “fabric design” or “textile copyright infringement” filed after January 1, 2006 identifies 1,841 cases. Of those cases, the vast majority were brought by a relatively small

group of plaintiffs. A search of federal dockets in PACER⁴ reveals that the top ten fabric design plaintiffs⁵ are responsible for 1,582 cases during that same period. Of those ten litigants, Star Fabrics is by far the most active (498 cases), with Unicolors coming in second (270 cases). Moreover, as the retail industry well knows, Unicolors and other copyright trolls do more than file complaints. In addition, they seek settlement payments outside of court by sending hundreds of demand letters each year.

Of the 270 copyright cases filed by Unicolors in the past fifteen years, 224 have been dismissed either voluntarily or by stipulation, indicating that Unicolors successfully extracted settlement agreements—often worth tens, and sometimes hundreds of thousands of dollars. Unicolors obtained default judgments in twelve cases, and accepted offers of judgment pursuant to Rule 68 in a handful of other cases. In short, for companies like Unicolors who have mastered the art of trolling, copyright litigation is very good business.

The profitable nature—and resulting prevalence—of fabric design copyright lawsuits is attributable in large part to the structure of the Copyright Act, which minimizes any risk to plaintiffs for bringing a complaint, and maximizes the reward. Under Section 504(a) of the Copyright Act, “except as otherwise provided by this title, an infringer of copyright is liable for either—(1) the copyright owner’s actual damages *and* any additional profits of the infringer, as provided by

⁴ Searches in PACER are more comprehensive than Westlaw.

⁵ Star Fabrics, Unicolors, L.A. Printex, United Fabrics, Gold Value, Universal Dyeing & Printing, Klauber Brothers, Neman Brothers, Fabric Selection, and Standard Fabrics.

subsection (b); or (2) statutory damages, as provided by subsection (c).” 17 U.S.C. § 504(a) (emphasis added). In addition, so long as the copyright owner has timely registered the copyright, it may also recover attorney’s fees as part of the costs. 17 U.S.C. § 505.

“Trolls” like Unicolors follow a very basic process to exploit this system. First, they obtain ownership of copyrights for fabric designs. They either pay design studios a few hundred dollars per work for designs prepared by studio artists, or they hire in-house designers to churn out prints on a daily basis. As reflected in the market prices, the cost of creating these designs—many of which are mere variations on themes that have existed for centuries—is relatively low. Next, they register the designs. While designs are sometimes registered separately as individual works, Unicolors and others habitually save money on registration fees by including several designs in a single application. They then release their designs into overseas markets where they are most likely to be copied by other fabric sellers, scour the domestic market for finished products featuring similar designs, and wait for any identified retailers to sell an appreciable amount of inventory. Finally, after the retailers have had a chance to sell off a good part of their inventory, the trolls send demand letters, or file complaints suing the retailers and their vendors for (1) alleged actual damages plus all profits received from the sales, or statutory damages—whichever is higher—and (2) costs and attorney’s fees.

While there may be some exceptions, fabric design copyright claims take most retailers by surprise. Ap-

parel retailers ordinarily do not participate in the creation or selection of print designs in the first instance, but instead simply choose finished products from their vendor's line. Retailers have no mechanism to determine whether any particular print design is *not* authorized for use by their vendor. For example, retailers cannot peruse a catalog of designs that are registered in the Copyright Office to determine whether any particular design is registered by any particular claimant. Even if such a catalog existed, retailers would face an impossible task of sifting through many thousands of designs.

Instead of second-guessing their vendors with respect to copyright authorization, retailers must usually rely on the seller's warranty that the prints are authorized. Apparel vendors, in turn, must usually rely on the fabric supplier's warranty. Here, for example, the evidence demonstrated that H&M's supplier claimed to have created the print in question, and even owned a Chinese copyright registration for it. (Resp. Br. at 11.) Ultimately, retailers like H&M generally purchase apparel in good faith, with the reasonable expectation that re-selling those goods will not infringe any third party's copyright.

Nevertheless, retailers have few options when presented with a copyright troll's lawsuit, even when they are completely innocent of any wrongdoing. A certificate of registration made before or within five years after first publication yields a presumption that the copyright is valid, and that the facts stated in the registration are true. 17 U.S.C. § 410(c). The Copyright Office does not test the truthfulness of information in

applications for registration, but instead merely determines whether (1) “the material deposited constitutes copyrightable subject matter,” and (2) “the other legal and formal requirements of this title have been met.” *Id.* § 410(a). In the absence of any substantive inquiry, the presumption afforded by a registration certificate ought to be weak. But as a practical matter, in most cases retailers find the presumption of copyright validity afforded by a registration certificate insurmountable. The “bar for originality” is “famously low.” *Skidmore as Tr. for Randy Craig Wolfe Tr. v. Led Zeppelin*, 952 F.3d 1051, 1069 (9th Cir. 2020) (citing *Feist Pubs., Inc. v. Rural Tel. Serv. Co., Inc.*, 499 U.S. 340, 345 (1991)). And while many—if not most—fabric prints are likely based on preexisting designs, evidence that the plaintiff’s design was copied from earlier work is hard to find.⁶

Moreover, defense costs are unavoidable, and unless a retailer can identify a strong affirmative defense

⁶ As highlighted in Respondent’s brief, Unicolors has been exposed on at least two occasions for claiming copyright protection in a design copied from a pre-existing work. In *Unicolors, Inc. v. Charlotte Russe, Inc.*, the defendants presented evidence that “two designs ‘virtually identical’ to the [Plaintiff’s allegedly copyrighted] Subject Design [were] contained in a book entitled *The Album of China Textile Patterns Vol. 13*, which was published in 2007, [two years] before the creation of Unicolors’s work.” No. 2:15-CV-1283-CAS, 2015 WL 3477123, at *2 (C.D. Cal. June 1, 2015). Faced with this evidence—and unable to identify any artist who supposedly created the design independently—Unicolors submitted to the entry of summary judgment. *Id.* And in *Unicolors v. Burlington Stores* (Central District of California Case No. 2:15-cv-3866), Unicolors claimed to own the copyright for a leopard print design that it copied almost entirely from a pre-existing photograph.

early on, most filed cases carry a significant risk of having to pay the plaintiff's costs and attorney's fees—often well in excess of expected damages. In light of the inherent cost and risk of litigation, retailers and/or their vendors mostly have no choice but to settle the claims by paying the troll's ransom.

In most cases, the actual damage resulting from infringement of a fabric design copyright is very small. As noted above, studios and in-house designers produce hundreds, if not thousands, of fabric print designs every year at very low cost. The full market value of the copyright for any one such work is ordinarily no more than a few hundred dollars. Thus, even if an alleged infringement were to entirely destroy the copyright's value, the plaintiff who owns a copyright worth only a few hundred dollars cannot suffer more than a few hundred dollars in actual damage. In this case, the jury measured Unicolors' damages in terms of lost profits from the sale of fabric. (Cert. Pet. App. 6a). That method does not measure actual damages with precision since it includes the value of a useful item—*i.e.*, fabric—in addition to the value of the copyright. But even using this inflated estimate, the jury calculated Unicolors' actual damage at only \$28,800. In other words, an award of \$28,800 plus costs would have been more than enough to remedy any actual damage suffered because of the alleged infringement.

If recovery for copyright infringement were limited to actual damages, trolls like Unicolors would not find infringement litigation to be more profitable than simply utilizing the copyright. However, at least with respect to apparel cases, the ability of copyright owners to recover the infringer's profits often gives rise to

the prospect of significant windfalls. In particular, it gives a fabric seller like Unicolors access to the profit from the downstream sale of finished goods—profits the fabric seller could not share in the absence of infringement.

As set forth in 17 U.S.C. § 504(a), the copyright owner is entitled to recover “any additional profits of the infringer” that exceed actual damages. These “additional profits” include “any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages.” *Id.* § 504(b). This remedy is equitable in nature; it is intended to prevent unjust enrichment and deter “efficient infringement”, i.e., situations where the profit exceeded the licensing fee, leaving infringers indifferent as to whether they paid up front or paid in court.” *Walker v. Forbes, Inc.*, 28 F.3d 409, 412 (4th Cir. 1994).

If copyright plaintiffs employed the profits remedy only to prevent unjust enrichment or deter efficient infringement, troll litigation might not be an issue. But copyright trolls like Unicolors abuse the remedy to seek windfalls far in excess of any possible unjust enrichment. According to the statute, a copyright owner’s recovery of the infringer’s profits may be limited to only that portion of the infringer’s profits that are (1) attributable to the infringement and (2) not taken into account in computing actual damages. 17 U.S.C. § 504(b). But the burden of proof on this issue is extremely favorable to the copyright owner. The copyright owner must merely “present proof of the infringer’s gross revenue,” whereas “the infringer is required to prove his or her deductible expenses and the

elements of profit attributable to factors other than the copyrighted work.” *Id.*

Apparel retailers do not ordinarily realize *any* profit from infringing fabric design copyrights. As explained above, retailers like H&M generally just purchase finished products from their vendors, subject to and in reliance on the vendor’s warranty that the print design on the fabric (if any) is fully authorized.⁷ Because securing a license for the copyright is the responsibility of the vendor (or fabric supplier), retailers assume the cost of any licensing of such copyrights is *already included in the price of the finished goods*. Given the nominal value of the copyright for any particular print—perhaps a few hundred dollars—any cost to license the copyright for a fabric design is small, and has little or no effect on the price of finished units. In other words, a retailer who purchases finished goods at market prices does not save any money by purchasing goods made from unauthorized fabric rather than goods made from authorized fabric. Unless the vendor passes along any savings it obtained from avoiding a

⁷ Retailers may present evidence that they relied in good faith on their vendor’s warranty to prove they were not aware and had no reason to believe their sales constituted infringement, and thereby trigger a potential reduction in the floor for statutory damages. *See* 17 U.S.C. § 504(c)(2). But a retailer’s reasonable reliance on a warranty does not relieve it of liability for infringement, or have any effect on a copyright troll’s claim for actual damages and profits. Nor does it guarantee statutory damages will be minimal. Here, it appears H&M promptly investigated Unicolors’ claims, and only refused to stop selling the accused garments after its investigation confirmed the vendor claimed ownership of the copyright. (Resp. Br. at 11-13.) Yet the jury still found willfulness, and awarded nearly \$850,000 in combined damages and profits. (Cert. Pet. App. 6a.)

licensing fee by discounting the finished goods to a below-market price, the retailer does not benefit from the infringement in any way. Rather, any profit to be made from avoiding licensing costs is necessarily captured upstream by the original infringer—usually an overseas fabric supplier.

Moreover, even if the profit that could be attributed to infringement was not completely captured by an upstream infringer, the value of a finished garment offered for sale in a retail store is clearly attributable to many factors that have nothing to do with the fabric design. Unlike a book, music album, or painting—whose value lies primarily in the copyrightable content—the value of clothing is primarily attributable to factors such as the style of the garment, the quality of materials used, the quality of workmanship, the goodwill of the garment label, and the goodwill of the retailer, just to name a few. Obviously, consumers are willing to pay far more for a fashionable, durable, well-made, name-brand garment selected from the sales floor of a trend-setting retailer than they would pay for a sheet of paper printed with a fabric design. The print on the fabric may be one factor in a consumer's decision to purchase a particular garment, but it is hardly the only factor, or even the leading factor.

However, as a practical matter it is often difficult—not to mention expensive—for a retailer accused of copyright infringement to prove the apportionment of its profit among factors other than the copyrighted work. Defendants will ordinarily have to engage experts to testify about both apportionment and deductible expenses—testimony that a jury may or may not accept.

The upshot is that in most cases, the likelihood that a copyright troll may recover “infringer’s profits” far in excess of actual damages is very high. For example, in this case the jury awarded \$817,920 as profit disgorgement—more than twenty-eight times Unicolors’ lost profit.⁸ (Cert. Pet. App. 6a.)

In some instances both damages and profits are nominal, but in those cases a copyright plaintiff may still seek a monetary windfall in the form of statutory damages. In any case where statutory damages are available, plaintiffs can recover as much as \$30,000 per work—\$150,000 if the infringement was willful—even if they suffered no damage and the infringer obtained no benefit from the infringement. 17 U.S.C. § 504(c). Finally, since a prevailing plaintiff may be awarded attorney’s fees and costs, copyright owners such as Unicolors can ordinarily bring lawsuits on a contingency fee basis—with practically no upfront cost and very little risk—even if actual damages and infringer’s profits are nominal.

Copyright trolls like Unicolors often claim that lawsuits are the only way to protect their rights. But—perhaps not surprisingly, given the profit to be made from lawsuits—the retail industry is not aware of any action they have taken to strike at the root of infringement. Nearly all of the infringement that matures into litigation in the United States originates with copying by fabric suppliers overseas. Here, evidence in the record apparently would have supported a finding that if

⁸ The trial judge conditionally granted a motion for new trial subject to Unicolors accepting a remittitur of damages to \$266,209.33. (Cert. Pet. App. 6a.) However, this figure is still more than nine times Unicolors’ lost profits.

anyone copied Unicolors' design, it was a Chinese entity named Shaoxing DOMO Apparel Company.⁹ (Resp. Br. at 11). Make no mistake, trolls like Unicolors are not particularly concerned that infringement by overseas fabric suppliers limits their ability to sell fabric. On the contrary, Unicolors sees overseas infringement as a cash cow that allows it to milk retailers for profits it could not obtain simply by selling fabric.

In short, the copyright for any particular fabric design is worth very little, and the owners of such designs do not make significant profits from the copyright simply from selling fabric. Conversely, retailers do not benefit from purchasing and reselling apparel made from fabric bearing unauthorized designs. Nevertheless, a copyright troll like Unicolors can earn handsome profits by registering copyrights in bulk, allowing the designs to be copied by overseas fabric sellers, waiting for unsuspecting retailers to sell products made from unauthorized fabric, and then suing the retailers and vendors for damages and profits, or statutory damages. In light of the economics, it is no surprise that courts in the United States have been inundated with fabric design copyright cases in recent years.

Interpreting Section 411(b) as it is written will to some extent curb the abusive practices by copyright

⁹ While H&M was apparently unable to present the evidence at trial, it appears Shaoxing DOMO's evidence may have supported a finding of independent creation, or possibly that both the Shaoxing DOMO and Unicolors designs were based on some other preexisting work. (Resp. Br. at 13-14.)

trolls. In particular, affirming the Ninth Circuit’s opinion will deter Unicolors and other trolls from pursuing litigation based on registrations that should have been refused due to known inaccuracies in the application for registration. To the extent Unicolors has provided inaccurate publication information in several of its bulk registrations, some of its claims may become ineligible for statutory damages and attorney’s fees.¹⁰ And to the extent Unicolors or others have waited until the last minute, and cannot both register and commence an action within the generous three-year statute of limitations, some additional claims might be time-barred.

Nevertheless, affirming the Ninth Circuit’s opinion will not give infringers a “Get Out of Jail Free” card, or lead to any of the dire consequences Unicolors predicts. Unicolors complains that willful infringers might game the system by forcing copyright owners—specifically, copyright owners who provided materially inaccurate information to the Register of Copyrights with knowledge that it was inaccurate—to submit to discovery and trial, then pull the rug out from under them on a technicality, and collect their attorney’s fees and costs. These fears are unfounded, particularly since the ability to avoid such a scenario is entirely within the power of the copyright owner.

First, Unicolors assumes most copyright owners apply for registration without assistance from lawyers, and from that premise concludes that many copyright owners include materially inaccurate information on

¹⁰ So long as they properly register their claims, Unicolors and other litigants will still be able to sue for actual damages and profits.

their copyright applications with knowledge that it is inaccurate, subject to good faith—albeit unreasonable—mistakes of law. (Pet. Br. at 44-48.) But assuming it is common for copyright owners to apply for registration without legal help, and that material errors are common, it is nevertheless uncommon for copyright owners to pursue civil actions without professional assistance. Competent attorneys can and should review a registration with their client for accuracy prior to filing suit, and assist their client to promptly fix any errors that might otherwise result in a dismissal under Section 411(b). As Unicolors acknowledges, many errors can be easily corrected before litigation by filing an application for supplemental registration. (Pet. Br. at 52.) To the extent an error requires the copyright to be re-registered in its entirety, fixing the error may reset the effective date of registration. In such a case, the copyright owner might lose the right to recover statutory damages and attorney’s fees, but can still seek actual damages and the infringer’s profits.¹¹

In other words, the Ninth Circuit’s rule is not likely to result in the “intolerable consequence” of “letting infringers off scot-free.” (Pet. Br. at 48.) Rather, it will simply encourage copyright owners to be careful: first when they apply for registration, and again when they are considering filing a civil infringement action. So long as copyright owners do not unreasonably delay after discovering infringement, they will have plenty of time to cure any errors in their registrations prior to

¹¹ Moreover, fixing the error will enable the copyright owner to recover statutory damages and attorney’s fees should any other person commence an infringement in the future. *See* 17 U.S.C. § 412.

filing suit. The “case-ending dismissals” Unicolors dreads (Pet. Br. at 48) will only occur on the rare occasion where, as here, the copyright owner fails to take appropriate care at both the registration *and* civil complaint stage.

Moreover, the copyright owner who fixes any registration issues prior to filing suit would not face the prospect of paying an infringer’s costs and attorney’s fees unless the claim itself lacks merit. A successful Section 411(b) defense will only result in an infringer collecting attorney’s fees in cases where the copyright owner chose to plow ahead with an action where the registration is invalid, and the claimant failed to review the registration for accuracy prior to bringing suit. In light of the statutory language, it is difficult to imagine a consequence that would be more tolerable.

Finally, Unicolors warns that the “interplay among all these consequences will yield perverse incentives,” encouraging infringers to focus on technical defenses rather than the merits, or to “run out the clock” before asserting Section 411(b) in an effort to insulate ongoing infringement from statutory damages and attorney’s fees. (Pet. Br. at 50-51.) And “on the flip side,” Unicolors cannot identify any legitimate interest to be served by the rule adopted by the Ninth Circuit. (Pet. Br. at 51-52.) But these are arguments against the statute itself. For better or worse, Congress decided to impose a consequence for including materially inaccurate information in an application to register a copyright. The narrow defense provided by Section 411(b) is not improper simply because it is technical in na-

ture. And copyright owners can easily avoid the relatively mild consequences of Section 411(b) simply by being careful and honest at every stage of the process.

V. Conclusion

If the Court does not dismiss the petition as improvidently granted, it should affirm.

Respectfully submitted,

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